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January 30, 2004

Mr. Michael Garrity
American Rivers
Northwest Regional Office
4005 20th Avenue West, Suite 221
Seattle, WA 98199
phone: 206-213-0330
fax: 206-213-0334

Re: BST comments on press release

Dear Mr. Garrity:

On Friday, January 16, American Rivers released the results of a study prepared by BST Associates. To our great disappointment, it appears that American Rivers (and its partners in this study) has not accurately reported the results of this study.

BST Associates has a long history of working with and for the port and transportation community in the Pacific Northwest. Our clients have included most of the ports on the Columbia and Snake River System, as well as the Washington Public Ports Association, Washington State Department of Transportation, and other groups engaged in transportation planning and development. When BST Associates was approached by a group of environmental organizations, we felt that our experience made us ideally suited to provide a neutral, third party analysis. The goal of this study was to evaluate whether barge transportation on the lower Snake River could be replaced by alternative methods and at what cost.

With our extensive experience in the region we felt that our firm could provide this group with a realistic, objective analysis of this issue. Unfortunately, the press release discussing this report tends to minimize the impacts, and ignores the many cautions in the body of the report about the viability of alternative transportation methods. Following is a discussion of what BST Associates considers to be the most important findings of the study.

## 1. Biological Effectiveness of Dam Breaching

First, BST does not take the position that breaching the dams will help to restore endangered fish runs. In fact, we clearly state at the beginning of the report that "there are uncertainties regarding the biological benefits to endangered species from dam breaching…".

## 2. Efficiency of the Existing Barge System

Second, BST Associates clearly states that the barge system is the most efficient means of moving freight.

> "From a transportation perspective, the Snake River barge system currently functions very effectively for shippers. The barge system gives shippers an alternative to the rail system and has the capacity to absorb substantial fluctuations in grain shipments, especially during peak export months and years.
>
> The major components of the existing barge transportation system include:
>
> - Barge terminals and river elevators,
> - Access roads to the barge terminals and river elevators,
> - Navigation channel,
> - Barge fleet, and
> - Export elevators.
>
> With one exception, all of the components of this system have sufficient capacity to meet peak demand and are available at a competitive cost. The sole constraint on the barge system is a need for improved dredging at the entrances to some terminals and in some parts of the navigation channel in the Lower Snake River.
>
> The components of the existing barge transportation system have sufficient capacity to meet peak demand and are available at a competitive cost. However, recent court decisions limiting dredging on the navigation system negatively impact the capacity of the transportation system. This is especially true of the McNary pool, which, if the lower Snake River dams were to be removed, would be expected to handle a large share of the grain that is now barged from farther upstream."

Elimination of barge transportation on the lower Snake River will necessarily result in a less efficient system. Further, BST Associates goes on record as supporting dredging in the Snake River navigation system to ensure that the barge system continues to function as effectively as possible.

## 3. Improvements Required to the Rail/Road Systems

BST Associates clearly states that the alternative road and rail systems face many constraints, but this caveat has been largely ignored in the American Rivers press releases.

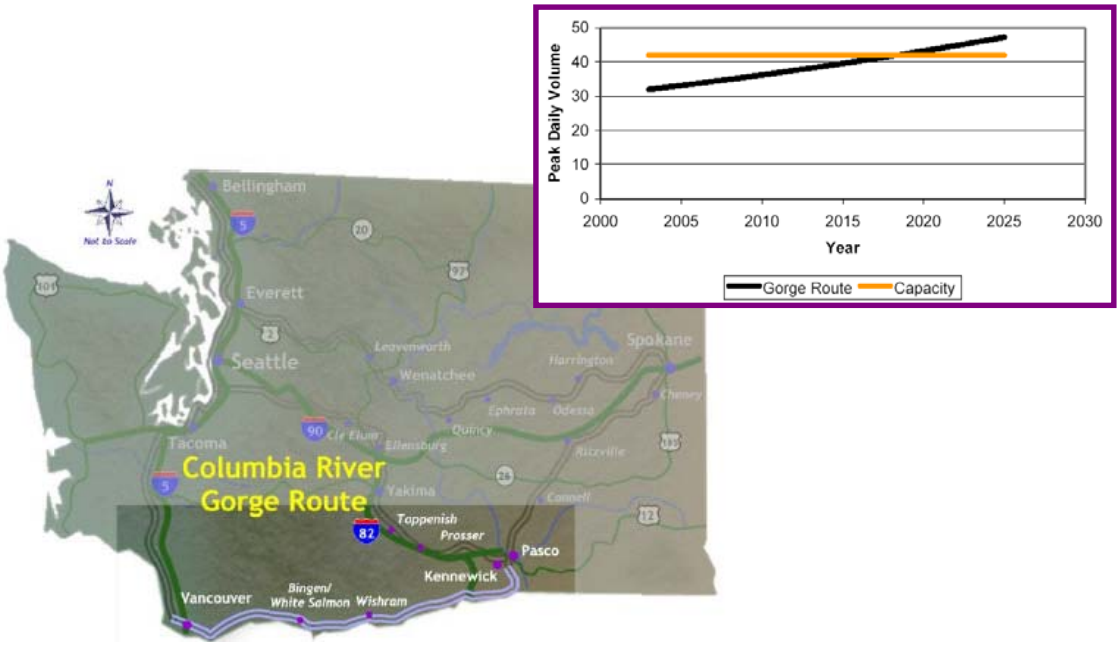
### Mainline Capacity Issues

The railroads face imminent capacity constraints in the Pacific Northwest. The American Rivers' press release correctly reports our estimate of an additional 1.2 trains per day of grain in each direction from dam breaching. However, in the report we discuss capacity constraints that already exist on the mainline rail system in the region, especially in the Columbia River Gorge and along the I-5 Corridor (in Oregon and Washington). BST Associates projects that this additional traffic (from diversion) will place further constraints on capacity, and move forward the time when capacity investments will be needed. This effect on capacity, combined with the

relatively low rates charged by the railroads for local grain hauls, make it uncertain that the railroads will want the additional grain traffic within the present rate structure.

We are particularly concerned about the capacity of the mainline rail system to handle expected growth in the existing cargo base, let alone additional traffic from breaching the Snake River dams. As shown in the following figure (based on research by HDR, Inc.), the Gorge Route is expected to reach capacity by the year 2018 without this additional traffic. At the present time, stronger demand (import/export of containers and export of Midwest grain products) could bring this capacity shortfall closer to 2015.

**Figure 1 - Map of BNSF Columbia River Gorge Route and Estimated Route Capacity**




Source: *East-West Passenger Rail Feasibility Study: A Preliminary Analysis*, HDR, Inc., June 2001

Similar constraints are appearing at Stevens Pass and along rail routes in Oregon. Part of the solution to these capacity constraints will likely include additional rail system upgrades, as well as moving additional traffic via Stampede Pass. Additional passenger trains along the I-5 corridor are also further exacerbating the capacity of the mainline rail system. Funding for the necessary capacity improvements does not currently exist.

Under the circumstances, it may be prudent for the public sector to divert more cargo from rail to barge to alleviate congestion. The U.S. Maritime Administration has a number of "short-sea" projects that bear witness to the need for barge and coastal freighter activity.

## Specific Improvements Required to Support Diversion

As noted in the American Rivers press release, the cost to upgrade rail elevators to accommodate diverted cargo volumes spans a wide range. The low estimate that is called out in the press release assumes that essentially no upgrades will be required at rail-served elevators. It is also based upon idealized productivity throughput rates, which are unlikely to be attained. Many of these elevators have not been used to load railcars in many years, and may very well require

substantial upgrades beyond those indicated in the report. Since the BST Associates report was not an engineering study, the actual condition of these facilities is unknown.

Our analysis of highway impacts indicated that the net impact on roads is relatively low from a maintenance perspective. This is because some roads will see a decrease in traffic while others will see an increase. As noted in the study, however, the cost of road improvements are not included in either the low or high estimates. These are projects that have already been identified but not funded, such as upgrades to US-12, numerous at-grade rail crossings, and other capacity constraints.

In the report, BST Associates provided a range of possible costs for making the road and rail system improvements that are needed in order to accommodate the volumes that would shift from barge. We clearly state in the report that certain costs are not included, such as the replacement of railroad bridges and trestles to handle 286,000-lb grain cars. We also note that there is a substantial backlog of unfunded projects in the region, and that shifting traffic away from the barge system will exacerbate existing road and rail constraints.

BST Associates is also keenly aware of the lack of money available for financing any needed improvements, stating "there is significant uncertainty related to financing improvements to the existing freight system…"

## 4. Comparison of Barge and Rail Rates

As noted in the American Rivers press release, our analysis assumed that the current barge and rail rates would stay the same, in the event of dam breaching. In the body of the report, however, we caution that many of the inland rail-served elevators currently do little or no loading of grain to rail cars, and that the rates offered for rail service to these elevators are untested "paper" rates. The law of supply and demand suggests that decreased competition from the barge system could allow railroads to charge rates higher than those currently offered.

This raises the question of whether the railroads want the additional traffic. As we document in the report, railroads prefer to haul large volumes over long distances. From the perspective of the railroads, the ideal grain load is a 110-car shuttle train moving from the Midwest to the Pacific Northwest. Short hauls, such as those from eastern Washington to the export elevators on the lower Columbia River, are not lucrative and do not cover the cost of capital.

BST Associates believes that the low cost estimates are unreasonable and has cautioned American Rivers not to focus on the low end of the range. The high cost range is more reflective of the expected costs, but is limited to the existing barge users. If rail rates increase due to lack of barge competition, then there will be additional costs for shippers who currently use the rail system, as well. These costs are not included in the report.

## 5. Comparison with US Army Corps of Engineers Studies

Direct comparison of the results of this study with those done by the US Army Corps of Engineers ignores the different purposes and methodologies of the reports.

The American Rivers press release compares the results of the BST Associates study with earlier work performed by the Corp of Engineers. BST Associates emphasizes in the report that these two studies are not directly comparable, because their purposes and methodologies are substantially different. The Corps of Engineers report looked at the impacts from a national

perspective, and is based on the underlying cost of providing transportation. In comparison, the BST Associates report looked at impacts from a regional perspective, and is based on the rates offered by transportation providers, rather than on the underlying costs.

## 6. Final Conclusions

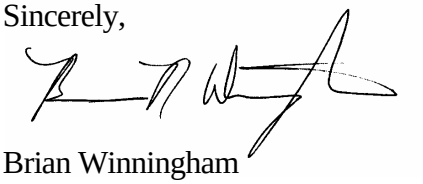
Our goal in preparing this report was to provide a neutral, third party opinion of whether alternative transportation systems could absorb the products diverted as a result of dam breaching. We do not believe that the American Rivers press releases accurately reflect the conclusions provided in the report.

We do not take a position on the scientific advisability of breaching the dams.

We conclude that there are significant uncertainties about the ability of alternative systems to accommodate the diverted product flows resulting from dam breaching. The lack of investment in the rail-based grain transportation in the region makes the higher cost estimates more likely but there is also a growing backlog of other unfunded road and rail system improvements that are impacting the existing freight volumes on these systems. Based upon these uncertainties and the low rates available to rail carriers, it is uncertain whether alternative transportation systems could accommodate diverted cargo volumes.

This letter clarifies the position of BST Associates. We request that you place it on your website so that your colleagues and other interested parties may see the conclusions of the authors of the report.

Sincerely,



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